Information Technology Outsourcing

Is outsourcing IT right for your organisation?
Many organisations continue to manage and operate their Information Technology (IT) department in-house.

This means they need to manage a broad range of specialist functions encompassing IT such as service delivery, technical support, managing and upkeep of critical infrastructure and applications and, most importantly, the company data.

The key challenges faced when managing an in-house IT department are usually quality, availability of specialised skills, high cost and the slow pace of change. As a result, it is becoming increasingly important for organisations to consider outsourcing IT functions, either as a whole or for one or more selected components.

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As Technology Director for Serco Citizen Services, he is responsible for defining technical strategy and delivery for the outsourcing businesses. In the past Raj has worked in a number of industries including telecommunications, transport, energy, construction and management consulting.

Raj is a graduate of Williamson’s Community Leadership program and is also active on a number of industry forums.
Information Technology Outsourcing – is it right for your organisation?

The rapidly changing IT landscape with leading-edge trends such as the *Cloud, Big Data, Internet of Things*, and *Software Defined Platforms*, has made it increasingly difficult and complex to determine whether insourcing or outsourcing is best for your organisation.

**The key factors to consider**

Making the decision to outsource can be a subjective process. It is different for every company.

So how do you decide whether insourcing or outsourcing is the right model for your organisation?

There is no one answer to this question – the right model really depends on your organisation’s strategic goals and multiple factors including your strategy, risks, commercial considerations, and your organisation’s culture. The illustration below describes some of the key factors.

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(Illustration 1: 4 Quadrants to consider)
When deciding which parts to outsource it is also best to understand what role they play for your organisation. By understanding their strategic and competitive nature, organisations can make an informed decision. The high-level decision matrix below can be used as a guide.

### The best IT functions to outsource

The most commonly outsourced IT system components are those which are:

- repetitive
- time-consuming, and
- can be done more cheaply.

It can also be particularly challenging to have a full complement of experienced resources available in-house.

The outsource model provides access to a global network of experienced personnel, who are available on-demand. Naturally, the provision of these services is the core business of the vendor organisation – so they often have immediate access to better people, tools, processes and practices.

Outsourced arrangements should reduce or give greater certainty to the cost profile of IT service delivery. It is very common to see resources priced ‘per unit’ and able to be flexed up and down to cater for changing demand from the client. In addition, large IT vendors can generally offer their clients significant cost savings on hardware purchases by providing access to their volume discounts.

Furthermore, significant economies of scale are also possible, as outsource providers have pools of talent and resources available, often on a lower cost basis (particularly when resources are located in low-cost geographies).

The outsource model may also be favorable when companies want to reduce their operational risk.
Once you have weighed your options and decided that outsourcing is the right decision, consider these additional factors prior to kicking off your transformation project, as they will determine the success of your transformation journey:

- current state of your IT projects and investments in your business
- organisation-wide structural or strategic changes that may impact the project
- cost to transition – the cost of transitioning staff and the project management of the transformation
- regulatory and compliance requirements
- key touch points for vendor management, governance and escalation processes
- success criteria (KPIs), and
- the review cycle for the outsourcing arrangement.

Retaining IT functions in-house

There can be some good reasons to keep your IT systems work in-house.

If you’re considering outsourcing, you need to look not only at the financial costs of doing the work yourself or letting someone else handle it, but also whether the task in question is part of your competitive advantage or if it’s central to your ability to create profits.

For instance, if your IT processes are a key factor in your competitive strategy and help keep you ahead of the competition, you wouldn’t want to outsource the work to another company that can easily take your competitive edge.

The usually cyclical nature of company investments in IT systems, with large peaks and troughs, often means the IT funding model maybe better suited to an in-house environment.

Regularly review your in-house and outsourced functions

Outsourcing is a strategic option you need to regularly revisit.

Circumstances change, particularly in the world of technology, and what made sense to keep in-house a year or two ago may be better handled by an outsource arrangement now.

If, for instance, you employed a person with specialised skills because you didn’t have the volume of work to warrant an outsourced arrangement at the time, you may eventually grow to the point where you can now outsource the function and tap into an outsourcer’s economies of scale.

You should consider any in-house arrangements to be short-term and review these on a regular basis to make sure that in-house is still the best choice for your company.
In the same way, you should regularly review your outsourced IT services to ensure they continue to deliver the efficiency benefits expected.

Conclusion

As the dominance of technology as a fundamental business tool grows, outsourcing will continue to represent an attractive option for many organisations.

Some benefits of outsourcing:

- access to expert skills/resources
- focusing employees on delivering to your key mission
- reducing costs of operations – staff and capital cost
- frees up capital for other projects
- access to state of the art technology
- allows IT management to focus on strategic IT direction
- reduced risk, and
- faster time to delivery.

While IT outsourcing presents several benefits, organisations need to truly understand their IT cost and strategic path before venturing into outsourcing. Realising the promised benefits is sometimes challenging. It is fundamental to governance that tight controls are maintained over what is outsourced, and how service delivery is managed.

Some critical steps you should include in your plan before outsourcing include:

- understand the detail of your IT costs
- factor in any competitive edge you receive from an insourced model
- understand your key user/stakeholder level of engagement and their perceptions of outsourcing
- practically segment your IT services and prioritise each segment from a business strategy perspective
- clearly document desired outcomes – what are your expectations and how are you going to measure success (service levels, delivery timeframe, cost savings etc)?
- if the high level business case adds up, consider outsourcing one IT component at a time to mitigate the risk of a "big bang" change
- pay careful attention to any regulatory, compliance or brand impacts outsourcing may have
- when seeking outsourcing proposals from vendors, ensure you request not only the cost of the service, but how they can assist with value-adds and how the function can be brought back in-house if future business requirements or circumstances change.